

## Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 AID-20 IGA-02 EB-11 COME-00 TRSE-00

OMB-01 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 XMB-07

DRC-01 /129 W

----- 124610

P R 010800Z MAY 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 2926

INFO AMEMBASSY ISLAMABAD

C O N F I D E N T I A L H A C C A 1 9 5 3

E.O. 11652: GDS

TAGS: EAID, EFIN, BG

SUBJ: ASSUMPTION OF PROJECT DEBT

BEGIN SUMMARY. AMBASSADOR AND ACTING USAID COORDINATOR WILSON MADE OUR CASE ON BANGLADESH DEBT QUESTION YESTERDAY TO DEPUTY CHAIRMAN OF PLANNING COMMISSION NURUL ISLAM, STRESSING URGENCY OF REACHING AGREEMENT WITH BDG BY MID-MAY AND URGING BDG TO TAKE BROAD VIEW OF ITS INTERESTS IN RESOLVING THIS QUESTION. AFTER HOUR-LONG SESSION, IN WHICH WE WERE EVENTUALLY JOINED BY SECRETARY SYEDUZZAMAN, NURUL ISLAM ASSURED US THAT HE UNDERSTOOD OUR POSITION AND WOULD PERSONALLY REVIEW BDG POSITION IN LIGHT OF ARGUMENTS WE HAD ADVANCED. IT DEVELOPED, HOWEVER, THAT BDG HAD JUST SENT US REPLY TO SCHWARZWALDER'S APRIL 18 LETTER IN WHICH BDG POSITION, WE SUSPECT, IS NOT ENTIRELY FORTHCOMING.

END SUMMARY.

2. AFTER EXPRESSING SATISFACTION AT WAY IN WHICH AID BILATERAL AGREEMENT, CHOLERA RESEARCH LABORATORY AGREEMENT AND THE TECHNICAL ASSISTANCE GRANT HAD MOVED ALONG, AMBASSADOR DREW ON DEPARTMENT'S INSTRUCTIONS TO PRESENT OUR CASE ON DEBT RESOLUTION, NOTING THAT HE HAD ALREADY RAISED THIS QUESTION IN GENERAL TERMS WITH PRIME MINISTER IN ORDER TO UNDERLINE IMPORTANCE US GOVERNMENT

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ATTACHED TO SATISFACTORY AND URGENT SETTLEMENT OF IT. EXPLAINING

REASONS WHY WE NEEDED TO REACH UNDERSTANDING WITH BANGLADESH BY MID-MAY TO BE ABLE TO PROCEED WITH PAKISTAN PORTION, AMBASSADOR SAID WE BELIEVED THAT ASSUMPTION OF LIABILITY FOR PROJECTS WHICH BENEFITTED PEOPLE AND ECONOMY OF BANGLADESH WAS RIGHT AND EQUITABLE, AS RECOGNIZED BY BDG'S POSITIVE AND FORWARD-LOOKING RESPONSE IN ITS AIDE-MEMOIRE LAST SEPTEMBER. FOR OUR PART WE HAD TRIED TO ACT GENEROUSLY IN WORKING OUT PROPOSED SETTLEMENT--POINTING OUT THE MINUTE PORTION OF THE OVERALL ASSISTANCE TO THIS COUNTRY THAT OUR PROPOSED SETTLEMENT REPRESENTED--AND IN TURN WANTED TO ENCOURAGE BANGLADESH GOVERNMENT TO TAKE A BROAD VIEW OF ITS INTERESTS IN RESPONDING TO OUR PROPOSAL. WE HOPED THEY WOULD NOT TAKE AN OVERLY "STRICT CONSTRUCTIONIST" ATTITUDE BUT THINK IN LONGER RANGE TERMS.

3. IN THE ENSUING HOUR'S DIALOGUE IN WHICH NURUL ISLAM TRIED TO BRING HIMSELF UP TO DATE ON THE OUTSTANDING ISSUES (ASKING PC SECRETARY SYEDUZZAMAN TO JOIN US), THE FOLLOWING MAIN POINTS WERE COVERED:

A) ONGOING PROJECTS. NURUL ISLAM THOUGHT THAT AS A GENERAL PRINCIPLE THERE SHOULD BE NO PROBLEM IN THE ACCEPTANCE OF LIABILITY FOR ONGOING PROJECTS. THE KARNAFULI THIRD UNIT WAS DISCUSSED AS AN EXAMPLE IN WHICH IT WAS NOTED THAT THIS PROJECT, ALTHOUGH NOT PHYSICALLY COMPLETED AT THE SITE, WAS ESSENTIALLY COMPLETE IN THAT THE FUNDS HAD BEEN DISBURSED AND THE MAJORITY OF EQUIPMENT SHIPPED TO THE PROJECT SITE. SYEDUZZAMAN POINTED OUT IN THIS CONNECTION THAT MANY PROJECTS HAD BEEN REACTIVATED UNDER THE RELIEF AND REHABILITATION GRANT AND POSED NO PROBLEM. ON THE OTHER HAND, THERE WERE SEVERAL PROJECTS ON THE US LIST WHICH WERE INCOMPLETE, HAD NOT BEEN REACTIVATED, AND FOR WHICH BANGLADESH CONSEQUENTLY COULD NOT ACCEPT LIABILITY AT THIS TIME. HE NOTED THAT THESE PARTIALLY COMPLETED PROJECTS HAD TO BE REEVALUATED AND COULD TAKE CONSIDERABLE TIME TO REACTIVATE. AT SUCH TIME AS THEY WERE REACTIVATED, HE SAID, THE BDG WOULD ACCEPT LIABILITY. HOWEVER, HE EMPHASIZED, THE BDG WOULD NOT BE WILLING TO ACCEPT LIABILITY IN THE CASES OF INCOMPLETED PROJECTS WHICH, ON THE BASIS OF REEVALUATION, DID NOT FIT INTO THE GOVERNMENT'S PLAN FOR REACTIVATION. WE ARGUED THAT AT THE TIME THE LIABILITIES FOR ALL THESE PROJECTS WERE INCURRED, THE PROJECTS WERE CONSIDERED TO BE OF BENEFIT TO BANGLADESH (EAST PAKISTAN) AND WERE THEREFORE VALID LIABILITIES TO BE ASSUMED BY THE BDG.

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B) CONSULTANT SERVICES, BOTH NURUL ISLAM AND SYEDUZZAMAN WERE NEGATIVE ABOUT BDG'S LIABILITY FOR CONSULTANT SERVICES AND TECHNICAL ASSISTANCE SERVICES, WHICH SYEDUZZAMAN SAID COMPRISED SOME \$9 MILLION OF THE TOTAL LIABILITIES. SYEDUZZAMAN QUESTIONED THE BENEFIT OF MANY OF THESE SERVICES SINCE THEY HAD NOT RESULTED IN ANY PROJECTS IN BANGLADESH. WILSON REBUTTED THIS ARGUMENT, POINTING OUT THAT A NEGATIVE FEASIBILITY STUDY WHICH DID NOT RESULT IN A PROJECT IN FACT BENEFITTED THE COUNTRY BY PREVENTING

THE UTILIZATION OF RESOURCES IN NON-VIABLE PROJECTS.

C) SETTLEMENT DEADLINE. NURUL ISLAM COULD NOT UNDERSTAND WHY WE ATTACHED SO MUCH IMPORTANCE TO REACHING FINAL AGREEMENT BY JUNE 30. RESPONDING TO THE POINT THAT THE JUNE 30 DEADLINE WAS NOT AN ARBITRARY DATE BUT RELATED TO CONGRESSIONAL LEGISLATION AND WAS THEREFORE AN ABSOLUTE TARGET, NURUL ISLAM NOTED THAT PAKISTAN HAD AT LEAST ON TWO OCCASIONS GONE INTO DEFAULT AND NO ACTION HAD BEEN TAKEN AGAINST THEM. HE MADE CLEAR, HOWEVER, THAT HE DID NOT MEAN THIS OBSERVATION TO IMPLY ANY LACK OF READINESS ON THE PART OF THE BDG TO REACH AN EARLY SETTLEMENT.

D) BDG REPLY TO SCHWARZWALDER'S APRIL 18 LETTER. SYEDUZZAMAN INFORMED US THAT THEY HAD JUST SENT US A REPLY TO THE ABOVE LETTER WHICH SET OUT THE BDG'S POSITION FOR US TO REVIEW. THE IMPLICATION WAS CLEAR THAT THE BDG RESPONSE DOES NOT FULLY MEET THE US POSITION.

4. AT THE CONCLUSION OF THE DISCUSSION THE AMBASSADOR EMPHASIZED AGAIN THAT WE BELIEVED OUR POSITION WAS FAIR AND REALISTIC IN THAT BANGLADESH HAD BENEFITTED FROM EACH OF THE PROJECTS ON OUR LIST WHICH RESPONDS TO VISIBLE PROJECTS CRITERIA, THAT WE HOPED WE WOULD NOT ALLOW OURSELVES TO GET BOGGED DOWN INTO ARGUMENTS ABOUT BENEFITS OF INDIVIDUAL ITEMS IN THE PROGRAM, AND THAT IT BEHOVED BOTH PARTIES TO TAKE A BROAD AND GENEROUS RATHER THAN A "STRICT CONSTRUCTIONIST" ATTITUDE. NURUL ISLAM SAID HE APPRECIATED THIS AND THAT HE COULD ASSURE US THAT HE WOULD PERSONALLY REVIEW OUR POSITION IN THE LIGHT OF THE POINTS WE HAD MADE TO HIM.

COMMENT: THERE IS NO DOUBT THAT NURUL ISLAM, WHO HAD EVIDENTLY NOT FOLLOWED THE DEBT ISSUE IN CLOSE DETAIL, NOW UNDERSTANDS THE ISSUES AND ALSO OUR APPEAL TO HIM TO LOOK TO HIS BROADER INTERESTS OF PROMOTING MAXIMUM US-BANGLADESH AID COOPERATION. WE CAN HOPE THAT HE WILL DO SOMETHING TO LIBERALIZE BDG POSITION. IT ALSO SEEMS CLEAR, HOWEVER, THAT BDG POSITION HAS TENDED TO RIGIDIFY ALONG  
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LESS SATISFACTORY LINES THAN WE WOULD LIKE AND IT WILL EVIDENTLY BE HARD TO PERSUADE NURUL ISLAM THAT IT WOULD BE A GREAT DISASTER IF A TECHNICAL "DEFAULT" SITUATION WERE CREATED BY INABILITY TO REACH OVERALL UNDERSTANDING BY JUNE 30. WE HAVE NOT YET BEEN ABLE TO TRACE BDG'S NEW LETTER BUT WILL TRANSMIT TEXT AS SOON AS RECEIVED AND WILL ALSO BE SUBMITTING RECOMMENDATIONS FOR REPLY.  
BOSTER

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT DEBTS, FOREIGN ASSISTANCE, DEBT REPAYMENTS  
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**Copy:** SINGLE  
**Draft Date:** 01 MAY 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** garlanwa  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Enclosure:** n/a  
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**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** garlanwa  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14-Aug-2002 by elyme>; APPROVED <14 JAN 2003 by garlanwa>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ASSUMPTION OF PROJECT DEBT BEGIN SUMMARY. AMBASSADOR AND ACTING USAID COORDINATOR WILSON  
**TAGS:** EAID, EFIN, BG, US  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005